

CAPITAL AREA TRANSIT SYSTEM

Annual Financial Statements

December 31, 2009 and 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/18/10

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Independent Auditor's Report

To the Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System's Employees' Pension Trust Fund (a fiduciary fund of the System), as of December 31, 2009, and for the year then ended, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Capital Area Transit System as of and for the year ended December 31, 2008 were audited by other auditors, whose report dated June 17, 2009, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund of the System and the Capital Area Transit System's Employees' Pension Trust Fund as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the System will continue as a going concern. As shown in the financial statements, the System incurred net losses before capital contributions of \$1,622,703 and \$668,127 for 2009 and 2008, respectively. Current liabilities exceed current assets by \$122,658 and \$105,887 at December 31, 2009 and 2008, respectively. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 12. The financial statements do not include any adjustments that might result in the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2010, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and Schedules 1 and 2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



A Professional Accounting Corporation

June 23, 2010

REQUIRED SUPPLEMENTARY INFORMATION

CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA

Management's Discussion and Analysis

The Management's Discussion and Analysis of Capital Area Transit System's (the System) financial performance presents a narrative overview and analysis of the System's financial activities for the year ended December 31, 2009. This document focuses on the current year's activities, resulting changes and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

Financial Highlights

The System's net assets were \$3,060,387 as of December 31, 2009, representing a decrease of \$48,787, or 1.57%, from that of December 31, 2008. A substantial portion of the net assets are invested in capital assets,

Net losses before capital contributions were \$1,622,703 and \$668,127 for 2009 and 2008, respectively.

Overview of the Financial Statements

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements required by GASB 25. The System maintains two different funds: a proprietary fund and a fiduciary fund.

Although the System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish), it is independently governed by a Board of Commissioners authorized by state statute.

Proprietary Fund. The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 10 through 14 of this report.

The System's proprietary fund financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

The Statement of Net Assets reports the System's net assets. Net assets, which is the difference between the System's assets and liabilities, is one way to measure the System's financial health or position. The net assets are classified into three categories: invested in capital assets, restricted, and unrestricted.

CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA

Management's Discussion and Analysis

Fiduciary Fund. The System has one type of fiduciary fund, a pension trust fund, which is used to account for resources held for the benefit of parties outside the government. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund statements can be found on pages 15 and 16 of this report.

Basic Financial Statements

The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows.

The Statements of Net Assets present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the System is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the System's net assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the System's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income (loss) to net cash provided by (used in) operating activities (indirect method) as required by GASB 34.

Financial Analysis of the System

Net Assets

The System's total net assets at December 31, 2009 decreased from \$3,109,174 to \$3,060,387.

The decrease in net assets is primarily due to the net loss before capital contributions. Restricted assets represent cash reserved to meet current fiduciary liabilities, primarily related to self insured vehicle and worker's compensation claims. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities decreased from \$6,315,212 to \$5,821,441 as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases. Management's budget indicates that the System's operations will generate adequate cash flow for the 2010 fiscal year.

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

The table below summarizes the System's net assets as of December 31, 2009 and 2008:

	2009	2008
Current Unrestricted Assets	\$ 2,218,359	\$ 2,548,825
Restricted Current Assets	158,191	105,718
Total Current Assets	2,376,550	2,654,543
Equipment, Net	7,105,521	7,659,471
Net Pension Assets, Long-Term	1,740,774	1,765,084
Total Assets	\$ 11,222,845	\$ 12,079,098
Current Liabilities	\$ 2,341,017	\$ 2,654,712
Long-Term Claims Payable and Related Liabilities	1,024,190	902,222
Long-Term Other Liabilities	4,797,251	5,412,990
Total Liabilities	8,162,458	8,969,924
Net Assets		
Invested in Capital Assets	2,088,124	2,009,205
Restricted	158,191	105,718
Unrestricted	814,072	994,251
Total Net Assets	3,060,387	3,109,174
Total Liabilities and Net Assets	\$ 11,222,845	\$ 12,079,098

Changes in Net Assets

The System's operating revenues decreased from the prior year amount of \$4,754,396 to \$3,363,752, or 29.25%. This decrease is primarily attributable to the expiration of a transportation contract with a local university mid 2009.

Direct operating expenses decreased by \$695,374, or 4.35%, to \$15,289,630. This decrease is also primarily due to the expiration of the transportation contract with a local university mid 2009.

Net non-operating revenues (expenses) in 2009 decreased \$259,306, or 2.46%, primarily as a result of decreases in the abatement of amounts due to the Federal Transit Administration (FTA) and a decrease in hotel/motel tax collections. However, these decreases were substantially mitigated by an increase in the transfers from City-Parish Government.

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

The table below summarizes the changes in net assets as of December 31, 2009 and 2008:

	2009	2008
Operating Revenue		
Charges for Services	\$ 3,355,591	\$ 4,744,508
Advertising Revenue	8,161	9,888
Total Operating Revenue	3,363,752	4,754,396
Direct Operating Expenses		
Operating Expenses	13,826,624	14,439,557
Depreciation Expense	1,463,006	1,545,447
Total Direct Operating Expenses	15,289,630	15,985,004
Loss from Operations	(11,925,878)	(11,230,608)
Non-Operating Revenues (Expenses)		
Interest Income	2,703	6,288
Interest Expense	(269,265)	(316,863)
Other Expenses	(6,953)	(5,523)
Abated Prior Years Questioned Costs - Federal Grants	-	355,012
Gain on Disposal of Fixed Assets	8,854	-
Government Operating Grants	4,701,563	4,616,388
Hotel/Motel Tax	1,237,134	1,524,604
Forgiveness of Interest on FTA Debt	-	109,877
Other Revenue	9,609	78,168
Operating Transfers from City-Parish	4,619,530	4,194,530
Total Non-Operating Revenues (Expenses)	10,303,175	10,562,481
Loss Before Capital Contributions	(1,622,703)	(668,127)
Capital Contributions	1,573,916	983,129
Net (Loss) Income after Capital Contributions	(48,787)	315,002
Net Assets, Beginning of Year	3,109,174	2,794,172
Net Assets, End of Year	\$ 3,060,387	\$ 3,109,174

**CAPITAL AREA TRANSIT SYSTEM
BATON ROUGE, LOUISIANA**

Management's Discussion and Analysis

Financial Outlook

The 2010 budget has been revised for the loss of significant revenue due to the expiration and nonrenewal of a major contract for services to a local university. Expected operating revenue and expenses have been reduced accordingly. The System anticipates that non-operating revenue and expenses (primarily federal grant revenues, taxes, and transfers from the City – Parish) will remain relatively constant. The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. Overall, the System is budgeted to operate at a break-even position.

Contacting the System's Management

This financial report is designed to provide the community, the Metropolitan Council of the City-Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

BASIC FINANCIAL STATEMENTS

CAPITAL AREA TRANSIT SYSTEM
Balance Sheets - Proprietary Fund
December 31, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 227,050	\$ 1,072,172
Accounts Receivable	340,526	61,040
Due from Other Governments	947,674	828,772
Prepaid Expenses	17,822	-
Inventory	685,287	586,841
Total Current Assets	2,218,359	2,548,825
Restricted Assets		
Cash and Cash Equivalents	158,191	105,718
Total Restricted Assets	158,191	105,718
Capital Assets		
Equipment, Net	7,105,521	7,659,471
Total Capital Assets	7,105,521	7,659,471
Other Assets		
Net Pension Asset, Long-Term	1,740,774	1,765,084
Total Other Assets	1,740,774	1,765,084
Total Assets	\$ 11,222,845	\$ 12,079,098

The accompanying notes are an integral part of these financial statements.

	2009	2008
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 825,948	\$ 855,682
Due to Federal Transit Administration	-	375,485
Accrued Compensated Absences	296,152	263,728
Claims Payable and Related Liabilities	554,542	526,949
Capital Lease Payable	664,375	632,868
Total Current Liabilities	2,341,017	2,654,712
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	444,229	395,592
Claims Payable and Related Liabilities, Less Current Portion	1,024,190	902,222
Capital Lease Payable, Less Current Portion	4,353,022	5,017,398
Total Long-Term Liabilities	5,821,441	6,315,212
Total Liabilities	8,162,458	8,969,924
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,088,124	2,009,205
Restricted	158,191	105,718
Unrestricted	814,072	994,251
Total Net Assets	3,060,387	3,109,174
Total Liabilities and Net Assets	\$ 11,222,845	\$ 12,079,098

CAPITAL AREA TRANSIT SYSTEM
Statements of Revenues, Expenses and Changes in Net Assets -
Proprietary Fund
For the Years Ended December 31, 2009 and 2008

	2009	2008
Operating Revenue		
Charges for Services	\$ 3,355,591	\$ 4,744,508
Advertising Revenue	8,161	9,888
Total Operating Revenue	3,363,752	4,754,396
Direct Operating Expenses		
Personal Services and Fringe Benefits	7,930,197	7,766,803
Supplies, Fuel and Other Bus Related Expenses	1,726,990	2,636,704
Contractual Services and Liability Costs	4,169,437	4,036,050
Depreciation	1,463,006	1,545,447
Total Direct Operating Expenses	15,289,630	15,985,004
Loss from Operations	(11,925,878)	(11,230,608)
Non-Operating Revenues (Expenses)		
Interest Income	2,703	6,288
Interest Expense	(269,265)	(316,863)
Other Expense	(6,953)	(5,523)
Abated Prior Years' Questioned Costs - Federal Grants	-	355,012
Gain on Disposal of Fixed Assets	8,854	-
Forgiveness of Interest on FTA Debt	-	109,877
Hotel/Motel Tax	1,237,134	1,524,604
Other Revenue	9,609	78,168
Government Operating Grants		
Federal Operating Subsidy	4,485,295	4,524,247
Planning and Technical Study Grants	216,268	92,141
Operating Transfers from Primary Government	4,619,530	4,194,530
Total Non-Operating Revenues (Expenses)	10,303,175	10,562,481
Loss Before Capital Contributions	(1,622,703)	(668,127)
Capital Contributions	1,573,916	983,129
Net (Loss) Income after Capital Contributions	(48,787)	315,002
Net Assets, Beginning of Year	3,109,174	2,794,172
Net Assets, End of Year	\$ 3,060,387	\$ 3,109,174

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Receipts from Customers	\$ 3,076,105	\$ 4,753,549
Receipts from Other Sources	8,161	9,888
Payments to Suppliers and Others	(5,897,906)	(6,548,458)
Payments to Employees and Payroll Taxing Agencies	(7,813,305)	(7,844,176)
Net Cash Used in Operating Activities	(10,626,945)	(9,629,197)
Cash Flows from Non-Capital Financing Activities		
Operating Subsidies Received from Other Governments	4,396,049	4,674,562
Grant Repayment to Other Governments	(375,485)	-
Hotel-Motel Tax	1,390,197	1,721,368
Other Expense	(6,953)	-
Other Revenue	9,609	78,168
Operating Transfers Primary Government	4,653,079	4,194,530
Net Cash Provided by Non-Capital Financing Activities	10,066,496	10,668,628
Cash Flows from Capital and Related Financing Activities		
Capital Contributions Received	1,573,916	983,129
Proceeds from Sale of Capital Assets	11,321	-
Payments on Capital Leases	(632,869)	(602,855)
Acquisition of Capital Assets	(911,522)	(294,440)
Interest Paid on Capital Debt	(275,749)	(306,245)
Net Cash Used in Capital and Related Financing Activities	(234,903)	(220,411)
Cash Flows from Investing Activities		
Interest Received	2,703	6,288
Net Cash Provided by Investing Activities	2,703	6,288
Net (Decrease) Increase in Cash and Cash Equivalents	(792,649)	825,308
Cash and Cash Equivalents, Beginning of Year	1,177,890	352,582
Cash and Cash Equivalents, End of Year	\$ 385,241	\$ 1,177,890
Reconciliation of Cash as Listed on the Balance Sheet		
Unrestricted Cash	\$ 227,050	\$ 1,072,172
Restricted Cash	158,191	105,718
	\$ 385,241	\$ 1,177,890

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM
Statements of Cash Flows - Proprietary Fund (Continued)
For the Years Ended December 31, 2009 and 2008

	2009	2008
Reconciliation of Net Operating Loss to Net Cash		
Used in Operating Activities		
Net Operating Loss	\$ (11,925,878)	\$ (11,230,608)
Adjustments to Reconcile Net Operating Loss to		
Net Cash Used in Operating Activities		
Depreciation	1,463,006	1,545,447
(Increase) Decrease in Accounts Receivable	(279,486)	9,041
(Increase) in Prepaid Assets	(17,822)	-
Decrease (Increase) in Net Pension Asset	24,310	(96,600)
Increase in Inventory	(98,446)	(18,720)
Increase in Accounts Payable, Accrued		
Expenses, and Deferred Revenues	57,810	72,443
Increase in the Provision for Claims Liability	149,561	89,800
Net Cash Used in Operating Activities	\$ (10,626,945)	\$ (9,629,197)

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM
Statements of Plan Net Assets - Pension Trust Fund
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and Cash Equivalents	\$ 293,525	\$ 536,101
Receivables	9,968	11,715
Investments	6,719,569	4,963,127
Plan Net Assets Held in Trust for Pension Benefits	\$ 7,023,062	\$ 5,510,943

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM
Statements of Changes in Plan Net Assets - Pension Trust Fund
For the Years Ended December 31, 2009 and 2008

	2009	2008
Additions		
Contributions		
Employer Contributions	\$ 410,499	\$ 404,011
Employee Contributions	359,604	354,086
Total Contributions	<u>770,103</u>	<u>758,097</u>
Investment Income		
Investment and Dividend Income	183,827	297,089
Net Appreciation (Depreciation) in Fair Value	1,276,961	(2,591,256)
	<u>1,460,788</u>	<u>(2,294,167)</u>
Less: Investment Expense	(59,034)	(75,091)
Net Investment Income (Loss)	<u>1,401,754</u>	<u>(2,369,258)</u>
Total Additions (Deductions)	<u>2,171,857</u>	<u>(1,611,161)</u>
Deductions		
Benefits	594,067	336,753
Employee Refunds	-	91,849
Administrative Expenses	65,671	62,289
Total Deductions	<u>659,738</u>	<u>490,891</u>
Change in Plan Net Assets	<u>1,512,119</u>	<u>(2,102,052)</u>
Plan Net Assets at Beginning of Year	<u>5,510,943</u>	<u>7,612,995</u>
Plan Net Assets at End of Year	<u>\$ 7,023,062</u>	<u>\$ 5,510,943</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Capital Area Transit System (the System) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes (LRS) and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of significant accounting policies.

Report Issued Under Separate Coverage

The Capital Area Transit System's financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Report (CAFR). The System has an operating agreement with the City-Parish that addresses the use of City-Parish facilities as well as other operating matters.

Financial Reporting Entity

Capital Area Transit System is a corporation created by East Baton Rouge Parish to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581 to recognize the System as a political subdivision and provide that all its assets are public property. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's general fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year. Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy of its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City-Parish governing the System (Metropolitan Council or Mayor President) appoints a majority of board members of the potential component unit.
3. Fiscal interdependency between the City-Parish and the potential component unit.
4. Imposition of will by the City-Parish on the potential component unit.
5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge - Parish of East Baton Rouge. In addition, based on the previous criteria, the System's management has included the Capital Area Transit System's Employees' Pension Trust Fund as a blended component unit within the financial statements of the System.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

The Capital Area Transit System Employees' Pension Trust Fund (the Plan) exists for the benefit of current and former System employees who are members of the Plan. The Trust is governed by an equal number of Employer Trustees and Union Trustees.

Currently, the Trust is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Trust is funded by the investment of the contributions from the System and member employees who are obligated to make contributions to the Trust. The Trust does not issue a separately issued audit report.

Fund Accounting

The accounts of the System are organized on the basis of Enterprise Fund accounting used by governmental entities. The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The System applies all applicable FASB pronouncements passed on or before November 30, 1989, in accounting and reporting for its proprietary fund operations unless those pronouncements conflict with or contradict GASB pronouncements.

Measurement Focus, Basis of Accounting and Presentation

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

Proprietary Fund

Enterprise Fund - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Presentation (Continued)

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The System applies all applicable FASB pronouncements issued on or before November 30, 1989, in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

Fiduciary Fund

The Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit single employer pension plan providing retirement benefits to qualified employees.

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Restricted Assets and Liabilities

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a certificate of deposit restricted for insurance and held by the State of Louisiana, and cash related to federal grants and related matching.

Investments

Investments are stated at fair value based on quoted prices. The change in fair value is recognized in operations.

Inventories

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the first-in, first-out method.

Equipment

Equipment is recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the assets are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 12 years for rolling stock to 3 years for certain office equipment.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Federal Grants and Dedicated Taxes

Federal grants are made available to the System for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.

In addition to federal grants, the System is the recipient of monies established under LRS 47:302.29(B) and LRS 47:322.1, which sets aside the Louisiana State sales tax on hotel occupancy. These monies are provided to the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the Louisiana state legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and is created by the Louisiana state legislature.

Compensated Absences

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

Years of Service	Vacation	Sick
0	None	1 Day per Month
1	7 Days per Year	1 Day per Month
2	13 Days per Year	1 Day per Month
6	17 Days per Year	1 Day per Month
15	24 Days per Year	1 Day per Month

Vacation must be taken by December 31st, or it is lost for the union employees. For the non-union employees, unused vacation can be carried forward to the next year. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned.

Claims and Judgments

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

Cash Flows

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Operating vs. Non-Operating Revenue

The System recognizes rider fares, contracted fare services and advertising revenue as operating. All other revenues, including federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

Receivables

Receivables consist of all revenues earned at year end and not yet received. Uncollectable accounts receivable are charged off directly against earnings when they are determined to be uncollectable. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 2. Cash and Investments

Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2009 and 2008:

	2009		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 285,212	\$ -	\$ 285,212
Certificates of Deposit	100,029	-	100,029
Money Market Accounts	-	293,525	293,525
Total Cash and Cash Equivalents	\$ 385,241	\$ 293,525	\$ 678,766

	2008		
	Proprietary Enterprise Fund	Fiduciary Pension Trust Fund	Totals
Cash on Hand and in Banks	\$ 1,077,099	\$ -	\$ 1,077,099
Certificates of Deposit	100,791	-	100,791
Money Market Accounts	-	536,101	536,101
Total Cash and Cash Equivalents	\$ 1,177,890	\$ 536,101	\$ 1,713,991

Proprietary Fund cash and cash equivalents of \$385,241 and \$1,177,890 include \$227,050 and \$1,072,172 of unrestricted assets and \$158,191 and \$105,718 of restricted assets as of December 31, 2009 and 2008, respectively.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended component unit, has a deposit policy for custodial credit risk. As of December 31, 2009, \$223,749 of the System's bank balance of \$437,749 was exposed to custodial credit risk. \$250,000 of deposits were secured by federal deposit insurance coverage (FDIC), which were not exposed to custodial credit risk. The remaining deposits, which were exposed to custodial risk, were secured by the pledge of securities owned by the fiscal agent bank.

Statutes authorize the System's proprietary fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2009 and 2008, certificates of deposit of \$100,029 and \$100,791 were pledged as collateral to the Louisiana Office of Workman's Compensation.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investments

As of December 31, 2009 and 2008, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets are as follows:

	Fair Values	
	2009	2008
U.S. Treasury and Agency Bonds	\$ 820,736	\$ 999,351
Corporate Bonds	221,099	231,269
Corporate Stocks	4,244,959	3,732,507
Equity Mutual Fund	1,432,775	-
Total	\$ 6,719,569	\$ 4,963,127

As of December 31, 2009, the debt maturities of the Pension Trust Fund's investments were as follows:

	Fair Value	Investments Maturities (in Years)			
		Less Than 1	1 - 5	6 -10	More Than 10
U.S. Treasury and Agency Funds	\$ 820,736	\$ 79,651	\$ 125,188	\$ 157,775	\$ 458,122
Corporate Bonds	221,099	-	169,045	52,054	-
Total	\$ 1,041,835	\$ 79,651	\$ 294,233	\$ 209,829	\$ 458,122

Interest rate risk. In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity of 30 years for any single security.

Credit risk. The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2009, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2009 varied between ratings of A and AAA consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

Concentration of credit risk. The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of 15% of the fund's total investments and no more than 30% of the total investment in any one industry.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investments (Continued)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2009, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

Note 3. Receivables - Due from Other Governments

Receivables due from other governments at December 31, 2009 and 2008 are as follows:

	2009	2008
Federal Transit Administration	\$ 668,085	\$ 362,571
Hotel/Motel Tax	269,149	422,212
City-Parish	10,440	-
Department of Revenue	-	43,989
Total	\$ 947,674	\$ 828,772

Note 4. Equipment

A summary of changes in fixed assets follows:

	January 1, 2009	Additions	Deletions	December 31, 2009
Equipment, Primarily				
Transportation Vehicles	\$ 18,236,986	\$ 911,522	\$ (208,064)	\$ 18,940,444
Accumulated Depreciation	(10,577,515)	(1,463,006)	205,598	(11,834,923)
Total	\$ 7,659,471	\$ (551,484)	\$ (2,466)	\$ 7,105,521

	January 1, 2008	Additions	Deletions	December 31, 2008
Equipment, Primarily				
Transportation Vehicles	\$ 17,950,697	\$ 294,440	\$ (8,151)	\$ 18,236,986
Accumulated Depreciation	(9,042,232)	(1,545,447)	10,164	(10,577,515)
Total	\$ 8,908,465	\$ (1,251,007)	\$ 2,013	\$ 7,659,471

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 4. Equipment (Continued)

Depreciation expense for the year ended December 31, 2009 and 2008 totaled \$1,463,006 and \$1,545,447, respectively. The City-Parish (Primary Government) owns the terminal, administrative office building and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

Note 5. Accounts, Salaries and Other Payables

The payables at December 31, 2009 and 2008 are as follows:

	2009	2008
Accounts Payable	\$ 506,748	\$ 631,296
Accrued Salaries	177,977	166,456
Accrued Expenses	89,776	-
Accrued Interest	51,447	57,930
Total	\$ 825,948	\$ 855,682

Note 6. Working Capital

Operations of the System are subsidized by the federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the primary government in the statement of revenues, expenses and changes in net assets.

Note 7. Pension Plan

Plan Description

The System, as well as covered employees, make contributions to the Capital Area Transit System Pension Trust Fund (the Plan), a defined benefit single employer pension plan. The Plan is administered by a local actuarial consulting company, under the direction of a Board of Trustees. All full time employees become eligible for participation upon the date entering covered employment. Prior to August 2006, the normal retirement date was the first day of the month following a member's 65th birthday and completion of 10 years of service. In August 2006, the Plan was amended and the age was reduced to 62 years. Benefits vest after ten years of service. A participant was entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963. Effective August 2006, the Plan was amended and the percentage was changed to 1.4% for all Plan years beginning January 1, 1991.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Average compensation is determined as the average of the five consecutive Plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which are after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits. Membership, pension benefit obligation, and other pension information are obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2009 and 2008. The valuation is performed at the beginning of the Plan year.

Current membership is comprised of the following at December 31st:

	2009	2008
Retirees and Beneficiaries Currently		
Receiving Benefits	58	53
Vested Terminated Employees	19	17
Active Employees		
Fully Vested	39	37
Not Vested	96	114
Total	212	221

Funding Policy

The employees and the System each contributed, as required, 7% and 8%, of each employee's salary. For the Plan year beginning February 1, 1995, the System's pension plan was granted "qualified" status by the IRS which enables contributions to the Plan to be non-taxable to the employee. The Plan's long-range ability to pay benefits also depends on the future financial health of the System.

Annual Pension Cost and Net Pension Asset

The System's annual pension cost and net pension asset for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Annual Required Contribution	\$ 404,577	\$ 291,917
Interest on Net Pension Obligation	(123,556)	(116,794)
Adjustment to Annual Required Contribution	167,913	146,189
Annual Pension Cost	448,934	321,312
Contributions Made Including Interest	(424,624)	(417,912)
(Decrease) Increase in Net Pension Asset	(24,310)	96,600
Net Pension Asset, Beginning of Year	1,765,084	1,668,484
Net Pension Asset, End of Year	\$ 1,740,774	\$ 1,765,084

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Annual Pension Cost and Net Pension Asset (Continued)

Trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2009	\$ 400,624	106%	\$ 1,740,774
December 31, 2008	\$ 321,312	130%	\$ 1,765,084
December 31, 2007	\$ 304,276	149%	\$ 1,668,484

Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the Plan was 83.61% funded. The actuarial accrued liability for benefits was \$8,399,788, and the actuarial value of assets was \$7,023,062, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,376,726. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,650,670, and the ratio of the UAAL to the covered payroll was 29.60 percent.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Key actuarial assumptions include 7% interest compounded annually, mortality tables from the 1994 Uninsured Mortality Table for males and females, anticipated turnover and disability rates ranging from 0.11% to 5.10% based on age of employee, and salary increases of 5.75% annually. The actuarial cost method is the aggregate actuarial cost method with allocation based on earnings. Asset valuation method is based on the current market value as of the last day of the prior Plan year.

Note 8. Deferred Compensation Plan

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full time employees and permits them to defer a portion of their salary until future years. The assets of the Compensation Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 9. Commitments and Contingencies

Grant Commitments

Grant agreements under which the system receives federal financial assistance require the system to match 17% - 20% of dollars received. As of December 31, 2009, the System has committed cash to fund local matching requirements; however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2008.

Contingencies

The System receives financial assistance directly from federal agencies which are subject to compliance audits under OMB Circular A-133 (Single Audit) and monitoring reviews by the granting agencies. In prior years, the Single Audits and monitoring reviews by the grantor agencies identified questioned costs totaling \$911,239 with accrued interest of \$141,625. During 2008, the System repaid \$431,377 to the FTA. In addition, principal and interest of \$355,012 and \$109,877, respectively, were abated by the FTA. The remaining unpaid questioned costs of \$124,850 for these years plus the estimated accrued interest payable of \$31,748 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2008. This entire amount of \$156,598 was subsequently repaid to the FTA on April 22, 2009.

The Single Audit performed for the 2008 year revealed questioned costs of \$202,024. This amount represents duplicate reimbursements received from the FTA for the payment of a capital lease on the System's passenger vans. The liability for these questioned costs plus the estimated accrued interest payable of \$16,863 has been accrued in these financial statements and is included in the Due to Federal Transit Administration amount at December 31, 2008. The questioned costs of \$202,024, along with related interest, were subsequently repaid to the FTA in 2009. Details concerning these findings are included in a separate single audit report dated June 17, 2009.

Note 10. Self Insurance and Legal Claims

The System is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The System manages its exposure to losses through a self insurance program. For quite some time, including the period January 1, 2004 through August 31, 2004, the System retained liability for the first \$250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to \$750,000. Beginning September 1, 2004, the System cancelled its commercial policy and thus became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims.

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 10. Self Insurance and Legal Claims (Continued)

At December 31, 2009 and 2008, accrued claim liabilities of \$1,578,732 and \$1,429,171, are included on the Proprietary Fund's statements of net assets, as follows:

	2009	2008
Current Portion	\$ 554,542	\$ 526,949
Long-Term Portion	1,024,190	902,222
Total	<u>\$ 1,578,732</u>	<u>\$ 1,429,171</u>

The accruals, which are based upon the advice of counsel, are in the opinion of management, sufficient to provide for all probable estimatable claims liabilities at December 31, 2009 and 2008. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Beginning of Year Liability	\$ 1,429,171	\$ 1,339,371
Current Year Claims and Changes in Estimates	1,038,849	656,526
Claim Payments	(889,288)	(566,726)
Balance at Year End	<u>\$ 1,578,732</u>	<u>\$ 1,429,171</u>

Note 11. Capital Lease Obligations

The System is the lessee of 28 Blue Bird transit buses and 5 Federal Coach vans under two separate lease agreements with First Security Leasing, Inc. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

Changes in the capital lease liability during the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Beginning of Year Liability	\$ 5,650,266	\$ 6,253,121
Additions	-	-
Principal Payments	(632,869)	(602,855)
End of Year Liability	<u>\$ 5,017,397</u>	<u>\$ 5,650,266</u>
Due Within One Year	<u>\$ 664,375</u>	<u>\$ 632,868</u>

CAPITAL AREA TRANSIT SYSTEM

Notes to Financial Statements

Note 11. Capital Lease Obligations (Continued)

Minimum future lease payments under these capital leases as of December 31, 2009 for each of the next five years and each subsequent five year period are:

Year Ended December 31	Amount
2010	\$ 903,248
2011	903,248
2012	833,704
2013	833,704
2014	833,704
2015 - 2016	<u>1,667,408</u>
Total Minimum Lease Payments	5,975,016
Less: Amount Representing Interest	<u>(957,619)</u>
Present Value of Minimum Lease Payments	<u>\$ 5,017,397</u>

The interest rates on the capital leases range from 4.87% to 4.92%.

Note 12. Current Operating Environment

As shown on the accompanying financial statements, the System experienced net losses before capital contributions of \$1,622,703 and \$668,127 in 2009 and 2008, respectively. In addition, current liabilities exceeded current assets in each of the years ended December 31, 2009 and 2008 by \$122,658 and \$105,887, respectively. The System continues to anticipate marginal ability to satisfy current obligations in the normal course of business.

The System plans to maintain a careful watch over expenditures to help alleviate some of the expenses attributable to transit operations, such as rising fuel costs and maintenance of vehicles. Overall, the System is budgeted to operate at a near break-even position in 2010.

Note 13. Concentrations

Substantially all non-management employees are covered under a collective bargaining agreement.

CAPITAL AREA TRANSIT SYSTEM
Required Supplementary Information Under GASB
Statement No. 25
Schedule of Funding Progress
December 31, 2009

Schedule I

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Payroll
January 1, 2010	\$ 7,023,062	\$ 8,399,788	\$ 1,376,726	83.61%	\$ 4,650,670	29.60%
January 1, 2009	\$ 5,510,943	\$ 7,954,134	\$ 2,443,191	69.28%	\$ 4,969,489	49.16%
January 1, 2008	\$ 7,612,995	\$ 7,749,081	\$ 136,086	98.24%	\$ 5,276,945	2.58%
January 1, 2007	\$ 6,936,692	\$ 7,223,985	\$ 287,293	96.02%	\$ 4,820,357	5.96%
January 1, 2006	\$ 6,305,722	\$ 5,768,124	N/A	109.32%	\$ 4,784,924	N/A
January 1, 2005	\$ 5,584,893	\$ 5,428,930	N/A	102.87%	\$ 4,623,606	N/A
January 1, 2004	\$ 4,986,296	N/A	N/A	N/A	\$ 4,149,773	N/A
January 1, 2003	\$ 4,160,734	\$ 4,309,796	\$ 149,062	96.54%	\$ 3,991,134	3.73%
January 1, 2002	\$ 4,244,806	\$ 4,763,742	\$ 518,936	89.11%	\$ 4,368,258	11.88%
January 1, 2001	\$ 4,113,469	\$ 4,113,469	N/A	100.00%	\$ 4,099,654	0.00%
January 1, 2000	\$ 3,752,507	\$ 3,752,507	N/A	100.00%	\$ 3,917,671	0.00%

CAPITAL AREA TRANSIT SYSTEM
Required Supplementary Information Under GASB
Statement No. 25
Schedule of Employer Contributions
December 31, 2009

Schedule II

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2009	\$ 348,544	\$ 410,499	117.78%
December 31, 2008	\$ 291,917	\$ 404,011	138.40%
December 31, 2007	\$ 268,774	\$ 438,443	163.13%
December 31, 2006	\$ 175,115	\$ 394,119	225.06%
December 31, 2005	\$ 190,796	\$ 355,099	186.11%
December 31, 2004	\$ 174,075	\$ 370,342	212.75%
December 31, 2003	\$ 207,283	\$ 350,140	168.92%
December 31, 2002	\$ 217,556	\$ 333,469	153.28%
December 31, 2001	\$ 106,152	\$ 297,684	280.43%
December 31, 2000	\$ 100,051	\$ 296,920	296.77%
December 31, 1999	\$ 115,024	\$ 230,118	200.06%

CAPITAL AREA TRANSIT SYSTEM

Notes to Required Supplementary Information Under GASB Statement No. 25

The supplementary information presented above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2009
Actuarial Cost Method	Aggregate actuarial method. Under this method, a separate actuarial accrued liability and unfunded liability is not identified or amortized. In years prior to January 1, 2003, the System used the frozen entry age normal method.
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	Current market value as of the last day of the Plan year was adjusted to smooth realized and unrealized capital gains and losses over a three year period by deferring one-third of such gains or losses accrued in the prior fiscal year and two-thirds of such gains or losses accrued in the current fiscal year.
Actuarial Assumptions:	
Investment Rate of Return	7%
Projected Salary Increases	5.75%



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the financial statements of Capital Area Transit System (the System), as of and for the year ended December 31, 2009, and have issued our report thereon dated June 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Capital Area Transit System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Area Transit System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the System in a separate letter dated June 23, 2010.

Capital Area Transit System's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Capital Area Transit System's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the management and the Board of Commissioners of Capital Area Transit System, and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

June 23, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

Compliance

We have audited the compliance of Capital Area Transit System (the System) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2009. The System's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, Capital Area Transit System complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance with a type of requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the System's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.


A Professional Accounting Corporation

June 23, 2010



LAPORTE SEHART
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

To the Board of Commissioners
Capital Area Transit System
Baton Rouge, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Capital Area Transit System, (the System) as of and for the year ended December 31, 2009, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

During our audit we became aware of a matter that may result in an opportunity to increase operating efficiency. This is described as item 2009 - 1 in the accompanying schedule of findings and questioned costs.

The Capital Area Transit System's response is included in the schedule of findings and questioned costs. We did not audit the System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of Capital Area Transit System, federal awarding agencies and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a *public document*.

A Professional Accounting Corporation

June 23, 2010

CAPITAL AREA TRANSIT SYSTEM
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009

Federal Grantor/ Program Title	CFDA Number	Project Number	Expenditures (Repayments)
<u>Federal Transportation Administration</u>			
Substitution of FY-88 & FY-86 Funds	20.507	LA-90-X079-04	\$ 26,042
Capital, Operating and Planning Asst.	20.507	LA-90-X239-04	134,084
2003 Formula Grant	20.507	LA-90-X250-00	107,923
2005 Formula Grant	20.507	LA-90-X281-00	(107,923)
2007 Formula Grant	20.507	LA-90-X308-00	(155,909)
2007 Formula Grant	20.507	LA-90-X308-02	81,439
2007 Formula Grant	20.507	LA-90-X308-04	22,766
2008 Formula Grant	20.507	LA-90-X332-00	2,416,258
2008 Formula Grant	20.507	LA-90-X332-02	111,676
2009 Formula Grant	20.507	LA-90-X340-00	1,614,924
2009 Formula Grant	20.507	LA-90-X340-08	279,099
2010 A.R.R.A. Grant	20.507	LA-96-X008-00	557,580
2010 Formula Grant	20.507	LA-90-XXXX-08	<u>243,203</u>
			5,331,162
<u>Passed Through the Louisiana Department of Transportation and Development</u>			
Capital Assistance Program	20.513	LA-16-X002-00	<u>66,817</u>
Total Federal Transportation Administration			<u>5,397,979</u>
<u>Department of Defense</u>			
Katrina Related Capital and Operating	20.507	LA-48-X005-00	134,564
Katrina Related Capital and Operating	20.507	LA-48-X005-04	<u>416,062</u>
Total U.S. Department of Defense			<u>550,626</u>
Total Federal Award Expenditures			<u><u>\$ 5,948,605</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM

Notes to Schedule of Expenditures of Federal Awards

Note 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2009. All federal awards received from federal agencies are included on the schedule.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the System's financial statements.

Note 3. Reconciliation of Federal Awards to the Statement of Revenues, Expenses and Changes in Net Assets

The following is a reconciliation of federal awards to revenues as reported on the statement of revenues, expenses and changes in net assets :

Expenditures of Federal Awards	\$ 5,948,605
Payment of Prior Year Questioned Costs	<u>326,874</u>
	<u>\$ 6,275,479</u>
 Federal Operating Subsidy	 \$ 4,485,295
Planning and Technical Study Grants	216,268
Capital Contributions	<u>1,573,916</u>
	<u>\$ 6,275,479</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CAPITAL AREA TRANSIT SYSTEM
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

A. Summary of Audit Results

Financial Statements

1. Type of auditor's report	Unqualified
2. Compliance and internal control over financial reporting	
a. Material weaknesses identified	No
b. Significant deficiencies identified not considered to be material weaknesses	No
c. Noncompliance material to the financial statements noted	No
d. Management letter	Yes

Federal Awards

3. Internal control over major programs	
a. Material weaknesses identified	No
b. Significant deficiencies identified not considered to be material weaknesses	No
4. Type of auditor's report issued on compliance for major program	Unqualified
5. Audit findings disclosed that are required in accordance with OMB A-133, Section 510a	No
6. Identification of major programs	
CFDA No: 20.507 - Federal Transportation Administration	
7. Dollar threshold used to distinguish between Type A and B programs	\$300,000
8. The System qualified as a low-risk auditee under OMB A-133, Section 530	No

CAPITAL AREA TRANSIT SYSTEM
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

B. Findings and Questioned Costs Related to the Financial Statements

None

C. Findings and Questioned Costs Related to Major Federal Award Programs

None

D. Management Letter

2009 - 1 Proper Controls over Receiving

Criteria: Proper controls over receiving require that evidence of receipt is documented by the signature of an employee in the receiving department.

Condition: During our testing of disbursements, we noted that receiving signature is missing on many accounts payable packages.

Effect: Possible control deficiency

Recommendation: Management should review its accounting policy and ensure that each accounts payable package is signed by a receiving department employee.

Response: Management will review implementation policy and make changes as necessary to ensure proper controls over receiving.

CAPITAL AREA TRANSIT SYSTEM
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2009

Schedule of Findings and Responses

2008 - 01 Excise Tax

Status: This finding has been resolved.

2008 - 02 Expense Recognition

Status: This finding has been resolved.

2008 - 03 Grant Billing/Request

Status: This finding has been resolved.

Findings and Questioned Costs Related to Federal Award

2008 - 04 Earmarking

Status: This finding has been resolved. Grant budgets contain required earmarks although no expenditures occurred in 2009. Management plans to spend these monies in 2010.

2008 - 05 Quarterly Reporting and Reconciliation of Reports

Status: This finding has been resolved.

2008 - 06 Allowable Costs

Status: This finding has been resolved. Federal awarding agencies were fully reimbursed for prior years' questioned costs in 2009.

Management Letter

2008 - 07 Accounts Receivable

Status: This finding has been resolved.

2008 - 08 Compensated Absences

Status: This finding has been resolved

CAPITAL AREA TRANSIT SYSTEM
Summary Schedule of Prior Audit Findings (Continued)
For the Year Ended December 31, 2009

Management Letter (Continued)

2008 - 09 Payroll

Status: This finding has been resolved.

2008 - 10 Capital Assets

Status: This finding has been resolved.

2008 - 11 Information Systems Security

Status: This finding has been resolved.